

Business Purpose Loan Guidelines

Kansas Department of Credit Unions

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Purpose:

To establish Business Purpose Loan (BPL) underwriting and documentation standards.

Definitions:

A. Business Purpose Loan (BPL): Any loan or aggregate of loans incurred for the purpose of business, commercial or agricultural use in an amount *less than* \$50,000.00.

B. Member Business Loan (MBL): Any loan or aggregate of loans incurred for the purpose of business, commercial or agricultural use in an amount *equal to or greater than* \$50,000.00.

C. Applicable regulatory guidance: KDCU BPL guidelines apply to any loan or aggregate of loans in an amount less than \$50,000.00. NCUA Rules and Regulations Part 723 applies to any loan or aggregate of loans at or above \$50,000.00.

D. Business Purpose Loan distinguished from a Consumer Loan: A Business Purpose Loan is made for a business, commercial or agricultural use while a consumer loan is made for a personal, family or household use.

Consumer loans are generally made under the protections of the Uniform Consumer Credit Code and Federal Truth in Lending laws. Consumer protection laws do not generally extend to a Business Purpose Loan or a Member Business Loan unless the parties agree in writing to extend the protections to the loan.

The department recommends that credit unions granting BPLs use commercial lending documents which provide the credit union with greater flexibility regarding loan rates and collection procedures.

E. Policy Requirements:

A Business Purpose Loan (BPL/MBL) Policy must be developed and adopted by the Board of Directors. It must specify at a minimum:

1. Types of loans that will be considered, (equipment, real estate, working capital, etc.)
2. Limitations based on total loans, individual loans, geographic location, etc.
3. Minimum lending personnel experience requirements

F. Underwriting Requirements

1. Completed and signed Loan Application to include stating the reason for the request (see #10 regarding persons with authority to borrow)
2. Verification of the Ownership Structure of the business entity (individual, partnership, corporation, LLC)
3. Current Financial Statement prepared by an independent auditor and 3 years income tax information (if available)
4. Detailed Business Plan if a new business
5. Cash Flow Analysis
6. Current Credit Bureau Report (within 30 days)
7. Better Business Bureau Report (if available)
8. Business Averages and Norms for operating funds or inventory loans

- 9.** Agreement by all owners to sign individually and as authorized representatives of the business
- 10.** Resolution indicating “Corporate Authority to Borrow”, signed by all corporate officers, if the business is a corporation
- 11.** Resolution for “Partnership Authority to Borrow”, signed by all partners, if the business is a Partnership
- 12.** Signed Loan Agreement and Promissory Note stating the right of the credit union to request financial information and the right to inspect the business property as well as any other conditions the credit union wishes to establish on the loan
- 13.** Signed Security Agreement with detailed description of the collateral, serial numbers or other identifiers and a lien search for all previously owned collateral
- 14.** Liens filed for all titled collateral and filed financing statements (UCC-1) with the Secretary of State for all other collateral
- 15.** Proof of insurance on all collateral and on the business